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March 1, 2018

U.S. Postal Regulatory Commission
901 New York Avenue NW, Suite 200
Washington, DC 20268-0001

RE: 10-Year Rate System Review
Docket No. RM2017-3
Order No. 4258

Dear Commissioners,

I value the role the U.S. Postal Regulatory Commission plays in our industry and appreciate your efforts. I also understand that you have a different viewpoint into the industry than we do as a platform for mail service providers. As I recently reviewed the rate-making framework you have proposed as a result of your 10-year review of the CPI-based annual price cap established under the *Postal Accountability and Enhancement Act*, I fear that there is a significant piece of information that was overlooked. Last year, over 4 billion mailpieces crossed our platform and we represent over 20 mail service providers (MSPs) and mail owners.

The intention of this letter is to voice/highlight that the proposed changes will:

- A. Decrease the spreads between non-entry and destination entry, and deeper sortation qualifications, which will have a negative impact on MSPs
- B. Increase the cost of sending mail which will cause mail owners to send less mail (also a negative impact on MSPs)
- C. **MSPs exiting the industry (A) and less mail volume (B) will have a significant negative impact on the sustainability and financial health of the USPS, which is the exact opposite goal of the Postal Regulatory Commission's (PRC) intention with their 10-Year Rate System Review**

As we have thoroughly discussed as members of Idealliance, NAPM, MTAC, and several PCC chapters, that the PRC is aiming to improve the health of the USPS. We greatly appreciate this effort. However, the mail industry is built on economies of scale which indicate that driving down mail volume will likely result in greater losses for the USPS. **It will be even more costly for the USPS on a per piece basis even if they collect more postage per piece – losses will mount.** The attempt to make the USPS healthier will be counter-productive.

The PRC should understand the transformation the mail supply chain has undergone and the way the pricing proposal will undermine the mail supply chain. The chain reaction on the collapsing price spreads:

1. MSPs exist solely to capitalize on USPS incentives.
2. The collapse of the price spreads between non-entry and destination entry, and deeper sortation qualifications will jeopardize the business of all MSPs (including commingling, co-palletization, and consolidation/logistics service providers).
3. Some MSPs will become insolvent, and others will have to minimize their costs/investment
4. Without MSPs, a larger burden of the full mailing cycle will fall on the USPS
5. The price increases will not cover the increased burden
6. USPS will build greater losses, and the attempt to bring greater financial health and stability will have failed

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Further, the PRC should consider the impact on mail volume and how that will ultimately affect the USPS:

- A. Mail owners evaluate the balance between cost and effectiveness when determining how to communicate with their customers
- B. Mail will not experience a change in effectiveness, but it will become more costly
- C. Therefore, mail owners will logically send less mail
- D. Less mail results in decreased economies of scale for both MSPs and the USPS
- E. MSPs will experience negative margin pressures by multiple forces: lowered economies of scale (volume) and less profitable incentives (price spreads compressing)
- F. USPS will also experience negative economies of scale as volume decreases and will not be able to make up for this through the collection of greater postage rates

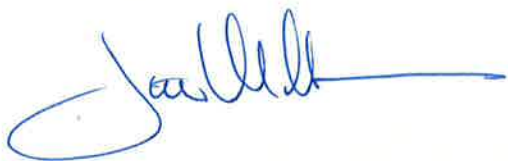
The proposal is not in the best interests of the Postal Service or the mail supply chain. By damaging the mail supply chain, it also threatens the Postal Service's source of revenue. Furthermore, the current CPI cap system incents the Postal Service to reduce costs and increase efficiency—the first objective of the rate cap established by Congress. Now, as economists expect inflation to start to increase, is not the time to reduce the incentives for the Postal Service to become leaner and more efficient.

For these reasons, I urge you to reconsider your decision to impose the proposed rate framework, and instead **focus on increasing the spreads between non-entry and destination entry, and deeper sortation qualifications.** This action would accomplish the following:

- A. Strengthen the financial outlook for MSPs by making their services more effective
- B. More effective MSPs minimizes the USPS' burden of handling mail prior to reaching the Destination Delivery Unit (DDU)
- C. Less burden will lead to less USPS cost
- D. Less cost on the USPS, coupled with stabilized revenue (by avoiding significant postage rate increases) will lead to **greater financial health for the USPS without negatively impacting MSPs or mail owners – a true win-win!**

As always, I greatly appreciate your time and consideration. I look forward to continued discussion and the possibility of a more effective decision for all parties.

Regards,



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